STATE OF INDIANA

DEPARTMENT OF LOCAL GOVERNMENT FINANCE
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MEMORANDUM

TO: City and Town Fiscal Bodies

CC: County Auditors, County Council Members, and County Commissioners

FROM: Cheryl A.W. Musgrave, Commissioner CWM

DATE: August 21, 2008

SUBJECT: Pre-1977 Police & Firefighters' Pension – Memorandum #2

1. The intent of this memorandum is to provide answers to a second set of questions presented to the Department of Local Government Finance ("Department") by the Indiana Association of Cities and Towns (IACT), and city and town executives about the assumption of the pre-1977 police and fire pensions by the State. This memorandum, which is in question and answer format, complements the Department's July 23, 2008 memorandum titled, *Pre-1977 Police & Firefighters' Pension* (http://www.in.gov/dlgf/files/Memo-Police-and-FirePensions.pdf).

2. Question: If cities or towns have a balance in their current police and fire pension funds, can they use these funds to pay for administrative costs, health insurance, and death benefits that the state is not picking up?

Answer: Yes, cities and towns with a balance in their current police and fire pension funds will be able to use these balances for remaining pension obligations, such as for health insurance or administrative costs, so long as the funds are used for purposes related to the specific pension plan. Funds for the 1925, 1937, and 1953 pension plans must be used only for the specific plan they relate to. For example, funds available in the 1925 pension plan can only be used for the 1925 plan obligations or associated costs.

3. Question: Will the Department of Local Government Finance make cities and towns use the total cash balance to fund the 2009 budget, which would reduce the additional pick-up amount by the state in 2009?

Answer: No, the State will make their distributions based on one percent (100%) of the anticipated benefits to be paid out for 2009. Available funds can be used to pay pension obligations in the first half of 2009, since the state distributions are not paid until July (1/2) and October (1/2) of 2009.

4. Question: Will the Department allow cities to make a permanent transfer of their cash balance to the General Fund or other municipal funds?

Answer: The Office of Management & Budget (OMB) and the Public Employees' Retirement Fund (PERF) are reviewing the uses permitted by the law as well as any applicable federal pensions regulations. In the meantime, the cash balance must be used for the respective pension plan related purposes.

5. Question: Can a city or town continue to levy a property tax for the remaining pension costs that the State did not pick up and that locals still have to fund?

Answer: Yes, a city or town may continue to levy a property tax for the remaining pension costs that the State did not assume under HEA 1001 (P.L. 146-2008). P.L. 146-2008, Section 840 did *not* prohibit a local property tax levy for such purposes. The new law only required the Department to reduce the maximum property tax levy of any civil taxing unit (e.g., city or town) and special service district by the amount of the payment to be made in 2009 by the State of Indiana for benefits to members (and survivors and beneficiaries of members) of the 1925 police pension fund, 1937 firefighters' fund, or the 1953 police pension fund.

If you have any additional questions, please contact your budget field representative. If you do not know your budget field representative, please go to the Department's webpage at: http://www.in.gov/dlgf/files/Budget_Field_Staff_Assignments_and_Numbers.pdf.